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Hendrix, Joseph Clifford

Address of

Joseph C. Hendrix...

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Address

of

Joseph C. Hendrix

President of

American Bankers' Association

at the opening of the

Twenty-fourth Annual Convention

Denver, Colorado

August 23d, 1898

ADDRESS OF JOSEPH C. HENDRIX,

PRESIDENT AMERICAN BANKERS' ASSOCIATION, DENVER, COL.,
AUGUST 23D, 1898.

Gentlemen of the American Bankers' Association—Since our last annual gathering so many things have occurred that it is difficult to choose which of them to discuss. Indeed, the temptation is to maintain silence, or, according to our business habit, to observe, to reflect, to consider, and to say no more than is necessary. Custom, however, compels an opening address; but out of the abundance of food for thought what shall one select? From the time we parted a year ago at Detroit—all wondering at the commerce upon the great inland seas of the North, and the future it betokened—until we started to Denver to get rest and new ideas, we have been busy men, and ours has been a busy country. We have seen the fog of depression lift, the sunshine of prosperity come. We have seen difficult problems and acute conditions, which perplexed the learned and confused the experienced, disappear as a fever leaves the body, and the restless, active, progressive American business spirit resume its old-time dominion. The Republic, which but a short time ago seemed to fill some hearts with despair, has so unfolded its flag that the sun cannot set upon it, and the whole world has increased respect for the army and navy of the United States. The spirit of sectionalism that once threatened to be a thorn in the flesh, has lost itself in the strife of the South and the North, the East and the West—through regulars and volunteers—to prove their fighting qualities in honor of a common country and our kind of civilization. The men who used to say that our country was too large, our interests too varied, and our ability to govern ourselves too uncertain, are now talking about annexation, conquests, military governments, new fields for commerce, and a new trade to follow our flag. It has been a funeral year for a number of doctrines. The commercial power of our nation has had an intense awakening. The man behind the gun has done great work, and the man behind the plow has broken the back of our hard times, but the man in the factory is looming up, and he has to be reckoned with. He can produce more than home markets can consume, and he does not purpose to stand idle for a part of the year if he can help it. We have become a great manufacturing nation, and we have the Anglo-Saxon thirst for wide markets growing upon us. Ship plates from Pennsylvania are being used upon the Clyde. Steel rails are going to Australia and Japan. The lowest bid to furnish Glasgow with iron pipe and to build a steel bridge in Holland was in each case from an American manufacturer. The export of domestic manufactures has doubled in ten years. The promise of experience—that the country which can produce iron and steel at the lowest cost will control and dominate the commerce of the world—is awaiting us, now that Alabama is dictating the price of pig iron and Pennsylvania is fixing the price of steel. We hold now three of the winning cards in the game for commercial greatness—iron, steel and coal. We have long been the granary of the world; we now aspire to be its workshop. Then we want to be its clearing-house.

We are told that here in Denver we are a "mile high in the sky." It is then a good place as well as a good time for a survey of things. This wonderful West enlarges our vision. This clear air gives us command of far-distant scenes. In this climate they say a man can accomplish more work than in any other. Perhaps he can think bigger thoughts. At any rate, as we look round and see the wide-winged forces of good order, industry and enterprise sweeping over this land, and the birds of ill-omen taking their flight; as we feel the fresh, stirring breeze of a new era of prosperity, and watch it sweep the cobwebs out of the brain and the dust off the hearts of men; as we catch the song of harvest-home from the valley and see the fat cattle on the hillside; as we see a new roof going on the church and a fresh coat of paint glistening on the little red school house, we bankers from Osceola, Kalamazoo, Wall Street, Boston and 'way down in Maine, want to uncover and thank God that this is all our country and that we live in it at the dawn of a new century. We want to testify that we believe in the United States of America, internally, externally, eternally. The hard times are over; popular discontent has vanished, and the great North-American chase for the dollar—first to get it, then to spend it—is in full cry.

The only thing that we know with certainty about hard times is that they at last come to an end. Our most recent period of depression ended so suddenly that we can hardly realize the why and wherefore of it. At the beginning of this year the music we all love began once more. The first six months of 1898 has broken the record. We have never seen such bank clearings, never have had so many deposits and have never held so much gold as in that period. The railroads have never carried so much freight. Three-fourths of all the staples were higher on July 1st than they were the year before. The money circulation in the past year increased $197,400,000, and most of it was gold. The per capita circulation increased $2.17 for 74,522,000 people. Two great harvests have been cashed, and through the car windows coming here we saw a third getting ready. Less than five per cent. of the railroad mileage, out of twenty per cent. in 1894, remains in hands of receivers. Georgia has sold her peach crop for $2,000,000, and is awaiting the returns from the watermelons. And this is but half the story.

This is the twenty-fourth annual convention of the American Bankers' Association. We have 3,350 members, representing an investment of more than a billion dollars in the business of banking and the custody of more than four billions of dollars of deposits. It is the oldest and the largest association of bankers in the world. When it was organized our country was on a paper basis. The first resolution of the American Bankers' Association sought to hasten the day "when every promise of our government to pay a dollar should be honestly redeemed in coin." That day came. Since the resumption of specie payments our government has redeemed over $500,000,000 of its demand notes and paid more than $1,300,000,000 of its bonded debt in gold. Then, as now, the question of currency was "the conundrum of the period." The struggle was to get to a specie basis. The bankers of the first convention talked about the retirement of the greenbacks, taking the government out of the banking business, and the war tax; and nearly a quarter of a century later we face the same questions. We may appear to have traveled in a circle, but in truth we have made excursions in experimental finance, and are at the

point of departure, having confirmed, in the meantime, some of the political economy of the rest of the world. Our nation has been called the greatest experimental laboratory in finance the world has ever seen, but a period of more exact and scientific thought upon money and banking questions is at hand. Public opinion has been clarified, and it is evidently settling down to a purpose to bring our financial system to the eminence we have justly won in commerce, agriculture and manufacturing.

But no matter what may be said of our methods in domestic finance, the effective financial power shown by our nation in honestly redeeming its obligations in gold leaves no doubt anywhere of our ability. We have been too busy in this country, perhaps, to study economic questions. They have been forced upon us by hard experience. We have had the lessons and our country has profited by them. The political campaign of 1896 was a great educator. Both sides of the question then at issue were presented with unusual skill. The popular discussion went to the very foundation of the money question. As a result there is a clearer notion of a standard of value than ever before, and a better understanding of the difference, between a standard by which we may measure values and a currency by which values may be transferred

In the past year there has been much discussion of a reform of our credit currency system. This discussion has reached a stage of great interest to us all. It presents definitely a question of national policy, very old in history, as to whether the nation shall reserve to itself the power to issue credit currency, or whether that power shall be devolved upon the banks. Every nation that becomes involved in a paper issue struggles to get free from it. Our paper currency is an unpaid debt of the Civil War, and in retaining it in our financial system we have had an object lesson, for many years, presenting its benefits and its evils. These may be weighed one against the other. Any currency system which develops evil must have a better reason to exist than that it is an economical form of national debt. Like an egg, it is good or bad. In this period of low interest-rates, the burden of an interest-charge would be light compared to the interference with the profits of business that a period of distrust involves. We are all familiar with the recurring troubles of our currency system. We have seen the government credit currency menacing financial order, exposing the Treasury to runs upon its gold, tangling up the affairs of State with private business interests, and confusing a central authority, which deals with consumption, by forcing it to exercise a function that is but half developed unless it is related to production and distribution. Our government, we all feel, should, in its finances, be perfectly defended, independent of demand obligations, without responsibility to its citizens in their own financial affairs, and aloof from complications in the currency situation. It is a matter of perfecting defences. We have seen how swiftly a war cloud may develop and burst with fury. An exposed treasury is a point of weakness. Other nations have found that out, and for that reason, one after the other has housed its currency affairs under the roof of some strong bank, so that the government might be free to act in its diplomacy, its finances, its politics or its wars, without involving the affairs of every one of its citizens. The issue of credit notes to circulate as currency, is a privilege either reserved to the government, as at present in our history, with a severe penalty for any

private issue, or conferred upon banks, because they are more closely related to the three great departments of business—production, distribution and consumption. The safety and uniformity of a currency based upon bank assets is not open to question. It is a matter of regulation.

When this Association met in Baltimore in 1894, the bankers of that city, under the auspices of its clearing-house association, presented a plan known since as the Baltimore plan, which has appeared in modified form in most of the subsequent schemes for currency reform. This has been called the bankers' plan, but it was merely a theorem in banking, based upon the experience of England, Scotland, Canada, and upon the facts developed under our State and National banking systems. The principle of a currency based upon bank assets and secured by a first lien, double liability of shareholders, and by a five per cent. guarantee fund, was then proposed for public discussion. The fact was made very plain, that if our national bank circulation had not been secured by government bonds, an annual tax on circulation of one-fifth of one per cent. from the beginning would have met all losses resulting to note holders, without any lien upon assets, and that an annual tax on circulation of 3/100 of one per cent. would have reimbursed the government for any loss on account of the circulation of failed national banks, if it had had nothing but the assets of the failed national banks to look to.

It is often remarked that the bankers of this country show no great interest in bank-credit currency plans; that they stated the Baltimore theorem as they might have stated an abstract proposition, and that they then left the field of activity to lawyers, editors, professors, writers on political economy, and to business men of public spirit. Undoubtedly a conservative feeling exists among bankers upon this subject. It reflects the traditions of our business in this country coming down from inflation periods of the past. In a banking system composed of so many units, each one conducted for itself with the zeal and enterprise native to our soil, there is presented the problem of the proper use of the privilege of issuing currency, without the danger of that bank-note inflation which swells like a balloon, and sooner or later collapses. Where the privilege is devolved upon a great central bank holding government revenues, or large banks with branches, the issue of credit currency notes comes under skillful and informed direction. With us, the system must be executed by numerous small and scattered banks. The great improvement in every department of finance, however, renders impossible the recurrence of the old days of "wild cat" and "red dog" currency, and we may dismiss from our minds the idea, that under any future currency system, money brokers will have to keep us company. The question is far above that level. Under the intelligent guidance of the Monetary Commission appointed by the Indianapolis Monetary Convention, a measure has been evolved, which has been modified and reported to the House of Representatives by the Committee on Banking and Currency. This bill satisfies many objections made by conservative bankers. It deserves your careful consideration. Many objections will be made to certain features of it, for it contains new and even radical provisions, but though you disapprove of some of the details, the general purpose of the bill should be recognized, and should be supported. It is at least a point about which the disturbed and distracted opinions on the currency question may center, and perhaps begin to crystallize. We are in a transition state in

our financial affairs. We can well afford to take short steps, even though the footing is difficult, if we feel that we are facing toward solid ground and a straight path.

It is no easy task to create a bank currency system to fit seventy millions of people, distributed over an area of three millions of square miles, and to meet the diverse needs of different parts of our country, and to have the system administered under national control through many thousand corporate banks. Our complex monetary situation adds to the obstacles to be overcome. We should do all in our power, by counsel and suggestion, to perfect the meritorious measure now pending, and to encourage the prevailing sentiment it represents. We have more interest in a currency system suitable to our needs as a nation, and our position among the advanced nations, than we have in any profit that may come through issuing a currency based upon bank assets. We have, as an Association, steadily resisted the repeal of the ten per cent. tax on State bank issues. We have uniformly contended for that monetary legislation which we believed to be for the best interests of our country. We have no interests as bankers to contend for, against the common interest of every citizen. Our country is ready, in all branches of its industry, for the new period now dawning, and out of the ferment there will, in natural order, be evolved a system of finance worthy of the destiny to which, as a nation, we seem to be committed. The cloud over the dollar of the United States, so faint in the sunshine of prosperity, but threatening in time of storm, will pass away, and we have faith that financial greatness will keep its historic step with commercial supremacy.

The healthful reaction in the tone of the popular mind has apparently released the banker of the United States from his political pillory, and we may note a clearer popular conception of the use of a bank in the round of common life. It has been a seed time of primary truths. Banks would not exist if the people did not want them. The best kind of people require them; the worst kind have none. While law governs them, regulates them and inspects them for the common good, it does not compel anyone to deposit in them, borrow money from them or use them in any way. If they are not wanted in any community, they can be abolished without the aid of law or politics. They are a tool of civilized society. They would exist if our standard of value were like the Rock of Ages, or if it fluctuated every hour. They would handle any form of currency which was current money with the merchant—from red feathers to minted coin.

It is characteristic of the American mind that it punctures its own fallacies. The banker in the abstract who has been so pursued in political discussions, has been found to be the banker in the concrete, who has duties and ways of life as simple as those of the village lawyer, doctor, preacher or teacher. He is society's treasurer, a practical business expert, a clearing agent of the purchases and sales in a community, a dispenser of credit, an underwriter of every loan he makes, a partner with all his debtors, and a guarantor to all his depositors. The value of a banker's assets is so related to the welfare of the community with which he deals that he seeks in every way to promote its highest interests. He spends his time deep down in the affairs of common life. He is at the nerve center of industry and feels every pulsation of the life about him. His strength is in the depth of faculties

that involve patience, courage, self-reliance, decision of character, keenness of insight and sagacity in judgment. His business is all of the workaday world, and is one long dead-pull upon talent, caution and perseverance.

It is said that the banker is one of the creditor class—a high priest in the Sanhedrim of creditors. He is a creditor and he is a debtor. He tries harder to increase his debts than the most energetic borrower. He owes in more directions than any customer. He owes for his capital. He owes for his surplus. He owes for his undivided profits. He owes for collection items, less as large a fraction as the business will stand, and he owes for all his deposits. His stockholders give him time to pay them their money. The collection items are paid promptly for sufficient consideration. If there is no consideration, the money is kept until the par point is reached, and that takes time. The deposits are due on demand, and it is the good banker's pride to increase them daily. If there is a conflict between the creditor class and the debtor class, the banker must either be neutral or follow modern instances, and rapidly change his party. He can usually hold his own as a creditor, if, as a debtor, his class enjoys its full privileges. When he ceases to be a debtor he does not hold much of a rank as a creditor. Therefore, as between the debtor and creditor, he tries to be a bi-partisan. But debtor he is, and prefers to be at the bottom, for then creditor he may freely become.

Is banking a trade or a profession? That depends upon the banker. The man who worms along in a narrow groove gets a fixed vision and a contracted brain, and becomes a shopkeeper of money. To one of wider view, the function takes on the dignity of a profession. The field of usefulness is wide. The range of activity is great. To analyze accounts, to read markets, to understand aright the tides and the cross currents in the habits of money, to judge human nature, to detect the approaching financial storm, to guess the crisis in its passage, to arrange maturities, to sharply define commercial credits, to fortify against speculative borrowings, to steer clear of real estate, to stubbornly hold assets at the melting point against the temptation of fixed or slow investments, to remember that the best as well as the worst market has a to-morrow, to know the paying value of a goodly amount of cash, to be able to give his duty the benefit of every doubt, and to have the courage not to take more than the ordinary risks of business, is to know a banker's primer. Success in banking requires time, patience and unending industry. Years of driblets make a surplus. One loss eats up the result of a multitude of transactions, and draws in its train days and even nights of care. The banker who never makes a loss may exist, but his existence is doubtful, and his education is incomplete. Moreover, he never has had the pleasure of seeing the dead come to life out of the musty corner of the portfolio of protested bills.

It is harder to make banking pay than most people think. The tendency of our profits to diminish is the natural incident of the competition of loanable capital, and must be reckoned with as a factor in the future of our business. The net earnings on the money invested in banking, in capital and surplus, does not exceed, as a whole, 6 per cent. The net earnings in the year ended June 30th, 1897, on the capital and surplus of the national banks, were 5.4 per cent., and in twenty-eight years the average net earnings on the capital and surplus of the national banks have been 7.8 per cent. Since the beginning of the national bank system 5,095 banks have been organized, of which 3,617 are in

operation. There have been only 368 failures among national banks in thirty years, so that more than a thousand banks have liquidated and paid all claims, the inference being that they could not make the business pay.

We might as well make public confession that we are agents of the money power. That money power is lodged not in the hands of the few, but in the splendid body of common people composing the Republic of the United States. The national banks are owned by 281,225 shareholders. Of these 101,944 are women. The average investment of each shareholder is $2,250. Over 60 per cent. of the shareholders of national banks own ten shares or less. The State bank statistics would probably show a more scattered ownership. The number of depositors runs into the millions. There is no syndicate so strong as to dictate the policy of the banks of this country, or to interfere with the dealings between a bank and its regular customer.

We often hear that there is a lack of banking facilities in certain parts of our country. As bankers we should know about this, and explain the reason. There is no doubt of the fact, but there is a twin fact to it, which is, that where banking facilities do not exist, conditions for profitable banking do not exist. The complaint comes from agricultural regions. Here the crops that require money are planted at the same time, and they are marketed at about the same time. The customers of a bank would deposit money at a time when there was no demand for it, and withdraw it when loans were needed. A bank must profitably employ its funds all the year, or banking will not pay expenses. Small banks are not the remedy. They cannot exist where industry is not diversified to some degree, so that money may be kept out in the different seasons. In Canada the branch bank system meets the want, and it would do so in this country, giving a better distribution of loanable capital and an interest rate more nearly uniform.

One of the lessons derived from our last period of trade depression is, that bankers must reduce credits to a more scientific basis, and get into close and accurate touch with the affairs of dealers. The credit men of mercantile houses, who give credit in goods as we give credit in money, have organized in a national association, to bring about greater accuracy in information and uniformity in statement. We have seen how men can conduct their business with eyes shut to the changes going on about them. They do not begin in time to adjust themselves to economic changes. Their mistake is apparent when it is too late. Who can ever estimate the revolution, in the business of individuals, caused by the popular use of the bicycle? It changed fashions, affected habits of life, and worked damage to many trades, so that men confronted losses from an unexpected cause without doing anything to hurt their credit, in the ordinary sense. Every banker is interested in promoting the use of uniform credit statements. The mercantile agencies are seeking to improve their service, and we can do much to assist them. We have to go into partnership with every man to whom we extend credit. Our interest-return is always small, compared to the money advanced. We have a right to full information intelligently presented. If dispensers of merchandise credits insist upon statements, the dispensers of money credits, whose return is much smaller, should do the same. The influence of this Association should be freely given to the movement of the National Credit Men's Association, to have merchants file detailed statements with the mercantile agencies, and to

have the latter indicate in their reports whether or not ratings are based on such statements.

Every banker has his eye on the enormous gold production of the world, in which Colorado is taking such a commanding position in this country. From figures at hand it appears that the world's gold production for 1897 was $240,000,000, coinage value, and that in less than ten years the annual yield has doubled, and is now greater than the combined production of both gold and silver was ten years ago. If the increase continues we have a bigger question than we now appreciate. The estimate of the gold production for 1898, based on the large returns already in, is $275,000,000. The gold production of Colorado last year placed her first in the list of gold-producing States. Her gold product this year will probably exceed in value the silver product of 1890, the year the Sherman law was passed.

The money stock of gold on January 1st, 1894, in the whole world was $3,965,900,000—the supply accumulated since gold began to be used as money. The five years' production since, including the estimate for 1898, will, on January 1st, 1899, be $1,097,000,000, coinage value, or 27 per cent. of the accumulated gold money stock of the world as it stood just five years before. Of course, a large amount of the annual product of the gold is used by the industrial arts; but, making full allowance for this, the fact remains, that the money stock of gold has increased more than 20 per cent. in five years.

In the past we have devoted our conventions for the most part to listening to learned economic essays. Our members traveled far, and sat silent to listen. They went away with a mass of arguments and facts and statistics to digest, and many of them never came back. In recent years, we have sought to draw upon the experience, practical thought and philosophy of our own members—in short, to develop home talent,—and we are much better satisfied. We are practical bankers, dealing with conditions as they are; and never expect to be ideal bankers dealing with conditions as they might be. This business-like tendency in our Association's affairs has met with hearty approval. We hope, in this convention, that the individual member who has any question bothering his brain, will make a demand draft upon us all. We are here to help one another all we can; to discuss practical questions; to get up a cross-fire of question and answer upon points of law and practice; and to get the benefit of many minds.

One of the practical efforts of this Association is the work of its Protective Committee in making a common cause for all its members against bank criminals. The policy is well understood—especially by those who are expert enough in burglary, forgery and swindling methods to be dangerous,—and the little metal sign, "Member American Bankers' Association," has come to have a dread meaning to the criminal class. A few figures will tell more than many words: Only one member of this Association has lost money through burglary since February, 1895. The loss to members through burglars and sneak thieves since the protective policy was perfected has been $8,875. The loss to non-members, so far as reported, exceeds $200,000.

We have another practical purpose in the hands of an efficient committee—that is, to get uniform laws in all the States on commercial paper. For many years we have been working to abolish days of grace; and although the end of this effort is not yet in sight, we have made satisfactory progress.

Grace is now eliminated from custom in:

California,	Idaho,	New Jersey,	Pennsylvania,
Colorado,	Illinois,	New York,	Utah,
Connecticut,	Maryland,	North Dakota,	Vermont,
Dist. of Columbia,	Massachusetts,	Ohio,	Virginia,
Florida,	Montana,	Oregon,	Wisconsin.

Grace is allowed on sight drafts only in:

Maine,	New Hampshire,	Rhode Island.

Grace is generally allowed in:

Alabama,	Iowa,	Missouri.	South Dakota,
Arizona,	Kansas,	Nebraska,	Tennessee,
Arkansas,	Kentucky,	Nevada,	Texas,
Delaware,	Louisiana,	New Mexico,	Washington,
Georgia,	Michigan,	North Carolina,	West Virginia,
Indiana,	Minnesota,	Oklahoma Ter'y,	Wyoming.
Indian Territory,	Mississippi,	South Carolina,	

The confusion of statutes in the different States has long been perplexing to business men. As clearing agents of the merchant and manufacturer, bankers come directly in contact with these conflicting laws. It is a long and tedious task to reconcile the differing State policies; but this Association has, I hope, an endless career; and if a steady purpose energetically promoted should give consistency and uniformity to the laws of the different States affecting negotiable instruments, the result would be of lasting benefit.

There is clearly a demand for practical results from all bankers' associations. The closer contact of bankers in group or State meetings has given point and vitality to banking talent. Questions of common interest are opened out for discussion, and are dealt with in crisp, concise language. Bankers are trained to get at the practical end of a problem. As a class they show much resource, skill and ability in doing so. The tendency in the associations of the various States is to do something. There has been a controversy with the express companies about rates on money packages. The plan of using the registered mail, with an insurance policy against loss, was energetically promoted in the various associations, and the express rates have come down. The express money-order has also received attention; and in Georgia, in Texas, in Arkansas, and also in Canada, the banks, through their associations, have gone practically to work to meet the competition by a system of reciprocal drafts. The clearing-house idea in interior districts is under discussion. The ever-present burden of bank taxation is being handled with more energy; credit-information plans are being talked about; and while the war-revenue tax is operative, there is a new topic to absorb much attention. There are numerous State questions, involving obsolete commercial practice—some of them relics of legislation when banking was in its crude infancy—which, if practically stated and energetically pursued, could be remedied.

As bank profits decrease, and we all see that tendency as the interest rates get lower, a higher range of skill will be required in our business. Just as much close hard study is being given to business to-day as to any profession. Lord Eldon chose the stupidest man in London for his banker, and was sorry

he could not find one more stupid, but that was a long time ago. It used to be said that if a man could tell the difference between a mortgage and a bill of exchange he could go into the banking business. We have found out in this country the costliness of the experiment of running a bank as a side occupation to another business. We have to be attentive to every detail to get a good result. A bank either goes ahead or falls behind; it will not run itself. Then, too, bankers, like other successful business men, must study the economic aspects of things about them. These are becoming more complex as civilization advances. The hundred hands of Science are mixing in business all of the time, replacing the old with the new. An adjustment to one set of conditions is scarcely made before a new set of conditions begins to develop. The tide flows in, and the rocks in the channel are lost to sight; but they do not cease to exist. We cease to think and to talk about them. When the ebb tide runs they reappear. It is our business as bankers to keep our charts corrected to date and to watch the tides. Elusive, subtle, evasive and perplexing as the principles governing the financial affairs of the world are, they nevertheless work with the certainty of any law of nature. It is our duty to study the business affairs of our country, to isolate and search out to the roots the complex economic phenomena, and to tell the story as simply as we can. What better forum is there for this than a bankers' convention?

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TITLE